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The Texas Windstorm Insurance Association June 2010: Challenges and Solutions

The Texas Windstorm Insurance Association has been seeking solutions to pay losses and avoid compromising the Texas General Revenue fund in the event a major hurricane makes landfall again on the Texas coastline. ***The number of structures insured by TWIA has grown dramatically during this decade even as we have seen the number of structures decrease significantly as a result of Hurricane Ike.***

In 2001 the association had 68,756 policies in force. As of June 30, 2010, this insurer of last resort had 231,885 policies in 14 coastal counties and a portion of Harris County. This represents an increase of 162,514 policies since 2001 and an increase of 7,938 policies since January 1, 2010.

In 1992 TWIA had about $5 billion exposure in these counties. At the end of June 2010 their exposure was approximately $65.9 billion not including loss of business coverage and additional living expense coverage. This is a $1.5 billion increase since January 1, 2010.

When business interruption and additional living expense coverages are included the total TWIA exposure rises to $72.3 billion.

Building and contents exposure in Galveston county alone is currently $20.5 billion, an increase of $0.7 billion since January 1, 2010.

H. B. 4409, which was enacted by the Texas Legislature in 2009, made some significant changes affecting TWIA. Following are some of the highlights of the legislation.

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The legislation provides that TWIA shall pay for losses in excess of premium and other revenue as follows:

From available reserves and the Catastrophe Reserve Trust Fund.

From proceeds of Class 1 public securities not to exceed $1 billion per year or other financing arrangements.

From proceeds of Class 2 public securities not to exceed $1 billion per year.

From proceeds of Class 3 public securities not to exceed $500 million per year.

Class 1 public securities must be paid by TWIA from its premiums and other revenue and TWIA may enter financing arrangements as necessary to obtain public securities.

Class 2 public securities shall be paid as follows: 30 percent of the cost shall be paid through non-recoupable member assessments; 70 percent of the cost shall be paid through non-refundable premium surcharges collected by each insurer, TWIA and the Texas Fair Plan Association and assessed on all policyholders who reside or have operations in or whose insured property is located in a catastrophe area. The surcharge applies to all policies that provide coverage on any premises, locations operation or property located in the catastrophe area for all property and casualty lines of insurance except federal flood insurance, workers' compensation, accident and health and medical malpractice.

The legislation eliminates all unlimited assessments to member companies of TWIA.

It also removes the Commissioner's ability to modify a rate filing and allows TWIA to use a rate without prior approval if, the filing is made thirty days before the date of use; it does not exceed 105 percent of the rate in effect on the date the filing is made; and it does not reflect a rate change for an individual rating class that is 10 percent higher than the rate in effect for that rating class on the date of the filing. TWIA may not file to use a rate described by this section more than once each year.

TWIA will have the ability to use catastrophe models to be considered in adopting rates and permits TWIA to establish rating territories. The association will also have the ability to purchase reinsurance

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without the Commissioner's approval that operates in addition to the trust fund, public securities, financial instruments and assessments authorized under Chapter 2210.

First time applicants and applicants for renewal of TWIA insurance must be unable to obtain property insurance through the voluntary market as evidenced by one declination from an insurer providing windstorm and hail insurance in the first tier coastal counties.

If all or any part of a property that is constructed, altered, remodeled or enlarged on or after September 1, 2009 that is in an area designated by the Commissioner as located in Zone V or another similar zone designated by the National Flood Insurance Program (NFIP) as having an additional hazard associated with storm waves and is eligible for flood insurance under the NFIP, TWIA may not issue an insurance policy unless there is evidence that the property is covered by flood insurance.

The TWIA Board of Directors have been appointed by the Commissioner with four members being representatives of the insurance industry, four members residing in the first tier coastal counties with a least one member being a property and casualty agent who is not a captive agent; and one member being a representative of an area not located in the seacoast territory with demonstrated expertise in insurance and actuarial principles. The Commissioner will have the authority to remove a member of the Board with cause stated in writing and posted on TWIA's website.

H. B. 4409 will insure TWIA losses up to $2.5 billion per year. A probable maximum loss to TWIA in the Galveston area could total $8- $10 billion and a probable maximum loss to TWIA in the Corpus Christi area could be around $4 billion.

If Texas does not experience a storm over the next few years that will allow TWIA to replenish the Catastrophe Reserve Trust Fund which is funded by premiums. But, if Texas does have a major hurricane TWIA would have to rely on bonding to fund losses.

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